Testimony of Ambassador Charlene Barshefsky
before the Senate Commerce Committee
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Thank you, Mr. Chairman and Members of the Committee. It am pleased to appear before you today.

Throughout the 20th century the United States has embraced the unique and difficult responsibility of making the world a more secure place by ensuring the peace and providing a foundation for prosperity. We have asked more of our people during World War I, World War II, and the Cold War than any other nation could have possibly delivered. That special responsibility for global security continues today quite visibly. We see it in the dedication of our Armed Forces within and among nations such as Bosnia, Haiti, and Korea; in their regional roles, throughout Europe, the Middle East, and the Asia-Pacific; and literally around the world, in their vigilance against terrorism and weapons of mass destruction. Our responsibilities today in the post-Cold War era run even deeper than security. Just as we are the world's military superpower and the world's strongest democracy, we are the world's most competitive and dynamic economy.

I'd like to talk to you today about how the United States is using trade to lay the economic groundwork for prosperity and stability in the 21st century.

Trade and the Strength of the Economy

We should begin by recognizing that our economy is the strongest in the world; that expanded trade has played an important role in building that strength; and that no country in the world is better positioned to take advantage of the enormous opportunities presented by a growing global economy. In fact, we are at a unique moment and we need to seize it now. Our competitors cannot beat us, but we can lose if we put ourselves on the sidelines.

Mr. Chairman, responsibility begins right here, at home. Our trade policy must be grounded in the understanding and confidence of the American people. To support our policies, they must have the facts put squarely -- and candidly -- within the context of America's overall economic record.

- Our economy is now the envy of the world. The fact is that we are in the sixth year of the current economic expansion. Over the past four years, we have created nearly 12 million new jobs, while the G-7 combined created roughly 600,000. We have the lowest budget deficit as a percent of GDP of all the G-7 nations. Our combined unemployment and inflation---the so--called misery index---are at the lowest level since 1963. Countries around the world seek to emulate the "American model."

- We have seen a resurgence in U.S. competitiveness. We are once again the world's largest exporter setting historic records in manufactured goods, high technology goods, services, and agriculture. The World Economic Forum has found America to be the most competitive major economy in the world for three years running. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 45%, service exports climbed 26% and farm exports rose 40%. We are the world's largest producer of semiconductors and the largest producer of automobiles.

- Our economic expansion has been investment-led, building the foundation for even greater economic strength. In 1995, total business investment in the U.S. was more than $800 billion. Our industrial production is up nearly 18% in real terms over the last four years. Japan's production is up 5 percent and Germany's has declined by 2 percent over this period. Growth of our industrial capacity growth is at its highest level since the 1970's. We have more manufacturing jobs than we had four years ago. The industrial Midwest has gone through a virtual renaissance of manufacturing and productivity.

Trade policy has contributed significantly to the economic strength of our country today. From the early weeks of the Administration, the President made it clear that in the global economy we would compete, not retreat. We would not accept the status quo whereby too often our trading partners took advantage of our open market while maintaining closed markets at home. We have relentlessly pursued an agenda of opening foreign markets, and breaking down foreign market barriers---multilaterally, regionally and bilaterally.

We committed to work for a system where all trade nations, developed and developing, would adhere to the same set of basic rules, and we have made important strides in that regard with the creation of the WTO and elsewhere. We have not yet fully leveled the playing field for U.S. companies, workers and farmers, but we have clearly made progress. The world is generally more open to U.S. exports than it was when the President took office, and far more open than when Congress, on a bipartisan basis, passed the landmark 1988 Trade Act which gave us and our predecessors the clear direction and the tools to open markets around the world.

This Administration has negotiated over 200 trade agreements, all designed to advance our economic and trade interests. In the past four years:

- We completed the Uruguay Round, the largest trade agreement in world history, which will add $100-200 billion to GDP annually when fully implemented.

- We completed the NAFTA, which increased our exports to Mexico, and kept Mexican markets open despite the worst economic crisis in Mexican modern history.

- We worked tirelessly to break down market access barriers in Japan, which have presented one of the central trade challenges for the past twenty years, reaching 24 agreements and increasing our exports 43% in four years (with exports covered by these agreements growing roughly twice as fast).

- We led the world in setting tougher standards for trade with China: battling to open a highly protected market, negotiating landmark agreements in intellectual property and textiles, and insisting that China's accession to the WTO occur only on commercially meaningful terms.

- We breathed new life into APEC, starting with the President's leadership in 1993, spelling out a long term vision for free and fair trade, making progress more concrete year by year, culminating with the key role played by APEC in completing the Information Technology Agreement (ITA), and anchoring our country more firmly in the fastest growing region of the world.

- We have led the multilateral effort in this hemisphere to build the Free Trade Area of the Americas (FTAA) by 2005, with concrete progress by 2000, deepening our commitment to our own hemisphere, recognizing the extraordinary progress of open markets and democracy throughout the region.

- We initiated the effort regarding the creation of the U.S. - EU Transatlantic Marketplace. We have been working closely with the private sector to improve market access.

- We took the lead in combating bribery and corruption in government procurement, in respecting core labor standards, and in pursuing the agenda to make trade and environmental policies mutually supportive.

- We have vigorously enforced our trade laws and agreements using every tool possible and making it clear that agreements, if not implemented by our trading partners, will be enforced. In the past four years we have brought 48 trade enforcement actions. We have filed 23 cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed 15 complaints last year alone.

- Over the last three months, we have completed the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications---two far-reaching multilateral agreements reducing trade barriers around the world for our high technology industries. The ITA will benefit producers of such products as semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of $5 billion. The telecommunications accord is expected to generate approximately 1 million U.S. jobs over the next 10 years and save billions of dollars for the American consumer. We estimate the average cost of international phone calls will drop by 80 percent -- from $1 per minute on average to 20 cents per minute over several years. The cost of U.S. domestic calls should also fall as the agreement helps raise investment in the U.S. in competitive telecommunications networks.

We pursued these initiatives because we recognized that trade is increasingly important to the future of our nation. Trade is now equivalent to nearly 30 percent of GDP, up from 13 percent in 1970.

Exports over the last four years have generated roughly one quarter of our economic growth. And these are good jobs; they pay 13-16% more than non trade-related jobs. That's one reason why over 68% of the jobs created in the U.S. between 1994-96 paid above the median wage. Exports support an estimated 11.3 million U.S. jobs, and over 1.4 million of these jobs were generated by increased exports over the last four years.

None of this is to suggest that we don't face challenges and continuing problems. Many markets around the world remain closed to our exports and, to the extent our trade deficit is the result of these barriers, particularly on a bilateral basis, they must be reduced. Far too many Americans are left behind in the current economic expansion, without the skills or education to benefit from the increased opportunities. Neither government nor the private sector should rest while that is the case. And I recognize that for those Americans who have lost jobs because of trade or technological change or corporate downsizing, it is cold comfort that the overall picture is positive.

In considering the direction of future trade policy, however, we need to start by recognizing that our economy is stronger than it was four years ago, and far stronger than it was ten years ago. None of us should be complacent, but our country's economic success is no accident. We put our government's market opening efforts behind our companies, workers and farmers at precisely the time when they were at their most competitive. After years of doubt and soul-searching about our country's ability to compete, we have together succeeded in defining a distinctively American partnership to succeed in a tough global economy. As we consider what comes next, we can take pride, for a moment, in what we, together, have accomplished.

A Moment of Choice; The Dangers of Inaction

But only for a moment. This is not the time for resting on our laurels. As we contemplate the next four years in trade, we face a very clear choice.

We can recognize that the American economy is the model for the world, and continue to open foreign markets and seize the initiative when it comes to international competition. We can recognize the extraordinary opportunities presented by the growing global economy, in which developing nations, which want and need the full range of our manufactured goods, services and agricultural products, are poised to fuel continued global growth. Over the next decade, the global economy is expected to grow at three times the rate of the U.S. economy. We would face up to problems as we identify them together: working to put in place education, training and adjustment policies needed to help those who are not benefitting from the new economy; advancing core labor standards and protecting the environment; being vigilant to the consequences and potential threat of forced technology transfers. But we would be starting from the proposition that we have been basically on the right track, and we should stay fully engaged, using all our tools, taking advantage of opportunities that present themselves as we did when we saw the chance to reach an ITA.

Or we can convince ourselves, against the evidence, that we are on the wrong track. We can choose our course guided by a picture of economic decline and disinvestment that bears no resemblance to what is happening in our country. We can ignore our trading interests and opportunities around the world, and let ourselves instead bog down in an endless debate over NAFTA, but primarily our relations with Mexico. We can, in short, lose our momentum, abdicate our position of strength, either permit markets to stay closed, or let others seize the initiative from us and gain preferential treatment. The choice is that clear.

With all we have accomplished in the past four years, the world has continued to change in ways that are critically important to understand. We must recognize the dangers of inaction. In every region of the world, but particularly Asia and Latin America, the two fastest growing regions of the world, our competitors are pursuing strategic trade policies and, in some cases, preferential trade arrangements that will open up markets for their exporters, their products, their workers, their farmers. In short, in this post Cold War global economy countries are creating new exclusive trade alliances to the potential detriment of U.S. prosperity and leadership. Example abound:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has a GDP of roughly $1 trillion and a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela) as well as countries within the Caribbean Basin. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also has a clear strategic objective regarding commercial expansion and a stronger position in world affairs.

- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR, the largest market in Latin America, comprised of Argentina, Brazil, Paraguay, and Uruguay, with a GDP of over $1 trillion. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement. The President of France, just in the region, said we “will have to set the foundations for a new and ambitious partnership,” with Latin America, adding that Latin America’s “essential economic interests... lie not with the United States but with Europe.” President Chirac was traveling with four Cabinet officials and 20 leading French businessman.

- China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as “strategic priorities” in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in that last two years, and Latin America is its second fastest growing export market.

- Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.

- ASEAN is forming a free Southeast Asian trade area that will include 400 million people and some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. In a bold initiative indicative of the new dynamic in the global economy, Argentina's President Menem recently suggested a MERCOSUR -ASEAN free trade area - an agreement that would encompass over 600 million people.

- Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, but also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. It has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.

- Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose. It has also struck an agreement with Canada that includes a range of market opening elements.

- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean chaebols have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.

- The countries of Southeast Asia, some of the most dynamic economies in the world, are integrating through its ASEAN Free Trade Area. The integration gives other ASEAN countries access in some key areas where U.S. exporters would otherwise have an advantage, such as in agricultural products, particularly processed food products.

Ninety six percent of the world's consumers live outside our boundaries, and 85 percent of them reside in developing countries. These are the large growth regions. Last year, the developing world imported over $1 trillion in manufactured goods from the industrialized countries, and this is the tip of the iceberg. The infrastructure needs alone of the developing world are estimated to be enormous. For example, in just 8 of the large developing countries, traditional infrastructure needs (telecommunications, power, transportation and petroleum infrastructure) are estimated to be over $1.6 trillion.

Our ability to create jobs and sustain our living standard in the next century will depend, in no small part, on how successful we are, relative to our competitors, in embracing the trade opportunities offered by these emerging markets. We should not be indifferent to currents that can be identified simply by reading the newspapers. In my view, we have all the talents needed to compete successfully, but our competitors are determined, sophisticated, strategic and focussed. Many U.S. firms are already seeing evidence that their competitors are engaged in an intensive effort to rework the rules of these dynamic marketplaces to their advantage.

A recent example illustrates the dangers. In November 1996 Canada reached a comprehensive trade agreement with Chile that will eliminate Chile's 11% across-the-board tariff starting this year. Northern Telecom recently won a nearly $200 million telecommunications equipment contract over U.S. companies in part because to buy from a U.S. producer meant an additional $20 million in costs (duties) relative to purchasing from Canada.

We have done much to level the playing field in the past four years, but in this case, we are sitting on the sidelines, spotting Canadian competitors an 11% price advantage every time we compete in the Chilean market. We will suffer that handicap again and again, in country after country, if we do not stay in the game of opening markets for our companies and workers. Looking at this sobering pattern, we need to reaffirm the commitment of the President in 1993, to "compete, not retreat."

Our Global Trading Agenda

For 50 years, the United States has led the world in opening global markets. Our persistent leadership has helped bring global tariffs down from an average of 40 percent at the end of World War II to about 5 percent today, leading to a 90-fold increase in world trade. We can continue that progress today.

Our trade policy must be driven by two factors: our emphasis on building prosperity at home through the expansion of our export and trade opportunities built on a strong foundation of reciprocity as we proceed; and ensuring we are strategically well positioned in the world to advance our economic and trade interests through a growing number of enduring trade arrangements, particularly where those arrangements put us at the center of activity.

The bedrock principle of our trade policy must be to support U.S. prosperity, U.S. jobs and the health of U.S. companies. The outgrowth of that policy is continued U.S. leadership as the world's indispensable nation transmitting the values of democracy, market economics, human rights, and the rule of law.

We have an extremely rare opportunity. Never before have so many nations looked to a freer market and believed in it enough to let competition come right to their doorstep. This is a season of open minds on more open markets.

Given the evidence of concerted efforts by our competitors to improve their position, around the world, we need to respond with our most effective and strategically powerful trade policy. We need to position ourselves as the most important player in the global constellation of trade activity now and into the future. We need to be positioned to play a catalytic role in all key regions of the world. We must use the full range of our tools of leverage on the trade front while continuing to enforce our trade laws and agreements vigorously.

There are some who believe that simply opening markets on a global scale is the be-all-and-end-all, no matter how it is done or no matter who benefits. This administration holds a different view. We believe it is imperative that we open markets in a manner consistent with the rules of the WTO, but we must make sure Americans benefit directly from this process, and to do that Americans must drive the rules of the new global landscape and the opening of markets. There is simply no other way to protect our jobs, our vital trading interests or our global leadership on trade.

Over the next four years, the Administration believes we should keep on opening foreign markets, and breaking down foreign trade barriers. We believe in this for our own export performance, for our own jobs and for own prosperity at home. The ITA and the telecommunications agreement provide vivid evidence of how our country can benefit from important sectoral agreements. We will continue to use the multilateral system, and have provided recent evidence of just how much can be accomplished multilaterally. At the same time, we cannot fully confront the competitive challenges we face or open the major emerging markets around the world without an aggressive, reciprocity-based push on the regional and bilateral fronts.

<u>Multilateral Efforts</u>

Within four years, major WTO negotiations will occur in several areas where the United States is a top global competitor: agriculture, services, and the rules for intellectual property rights. This year we will be resuming WTO negotiations on financial services, a sector where U.S. companies excel. These are the very goods and services that the fastest growing economies need most, and America does best. American workers, farmers, engineers, manufacturers will increasingly be just within reach of new markets that are measured in billions of dollars, but they will never get a secure hand on them if the United States cannot negotiate from a position of unequivocal strength, as it should. The Administration will work with industry and workers to search out ever more opportunities in key sectors. We will continue to look for sectoral opportunities to benefit U.S. exporters to build on the successes we have had in recent months.

Building on the positive outcome of the negotiations on the ITA and telecommunications, we are turning our attention to the WTO financial services negotiations which resume in April. We are committed to achieving a meaningful and comprehensive agreement by the end of the year. Earlier efforts to reach agreement were not successful due to inadequate offers by key countries. To successfully conclude these negotaitions this year, our trading partners must signficantly improve their commitments based on the GATS principles of market access, national treatment and MFN.

However, with the precedent that has now been established in the telecommunications agreement, we hope to see improved offers in the financial services talks.

Negotiations to further open the $526 billion global agriculture market are to be initiated in 1999. While the Uruguay Round reduced some of the most difficult barriers to agricultural trade, helping us to attain a record level of agricultural exports in 1996, our work is far from done. Removing agricultural barriers wherever they exist is one of our highest priorities of the next four years, so follow-on negotiations in the WTO are extremely important. We will work hard with our allies on this issue to move ahead.

Services negotiations to expand this $1.2 trillion global market -- where U.S. firms exported more than $220 billion in 1996 (est.) with a surplus of $74 billion -- are to start in January 2000. The trade related intellectual property rights (TRIPs) agreement which protects, for example, the interests of fast-growing U.S. copyright industries exporting over $400 billion a year, is to be reviewed, with key elements examined beginning before then. We must do everything possible to expand opportunities for such vibrant industries.

The "built-in agenda" from the Uruguay Round provides other opportunities to open foreign markets. In a world trading environment increasingly less characterized by traditional tariff barriers, the built-in agenda is in many respects aimed at clearing away the impediments left by non-tariff barriers -- be they deliberate or the unintended consequence of bureaucracy and inefficiency.

- For example, the rules governing technical barriers to trade (covering product standards, technical regulations and associated procedures such as testing and certification) are scheduled to be reviewed by December of this year, just as sanitary and phytosanitary rules affecting trade in agricultural goods will be reviewed by January of next year. These reviews will play an important role in our broader efforts to ensure that the development and application of product standards and environmental, health, and safety regulations are technically justified and do not serve as disguised protectionist measures.

- Similarly, bringing about the full implementation of the customs valuation agreement by 2000, particularly by WTO members in key emerging markets, will help to ensure that our exports to those markets are not impeded by improper or incorrect customs valuation methods that might distort the price of our products and erode the benefits of Uruguay Round market access gains.

- Likewise, the upcoming reviews of pre-shipment inspection and import licensing procedures can make a big difference in opening up access to the growing markets of low- and middle-income countries, where governmental reliance on pre-shipment inspection and import licensing to compensate for underdeveloped domestic customs administrations can sometimes result in unjustified trade barriers through commercial uncertainty and corruption.

- Negotiations for harmonizing the rules for determining the origin of internationally traded products are also due to be completed by July 1998. A harmonization agreement will significantly enhance commercial predictability and reduce the ability of governments to manipulate origin rules as a means of "reclassifying" products under a higher tariff. For the U.S. industries that source their parts and components from around the world for production in various countries, these rules are critical to their ability to predict costs and conduct business.

- The launch this year of new negotiations to improve and expand the coverage of WTO rules on government procurement can facilitate U.S. efforts to improve our access to the lucrative infrastructure projects now planned or under way in the rapidly growing regions of the world. We estimate that Asia alone will provide opportunities for up to $1 trillion in business for such projects over the next decade.

- The U.S. will push for broader and clearer reporting of state trading activities which will lead to a better understanding of the relationships between state trading enterprises (STEs) and governments and of the types of activities in which STEs engage. Due to our concerns about the state trading activities of other countries, especially in agricultural products, there is heightened scrutiny of STEs in the WTO.

We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of adherence to the rules and market access. Accessions offer an opportunity to help ground new economies in the rules-based trading system. The Administration believes that it is in our interest that China become a member of the WTO; however, we have been steadfast in leading the effort to assure that China's accession to the WTO will occur only on commercial, rather than political, grounds. The pace of China's accession negotiations depends very much on Beijing's willingness to improve its offers.

While China's accession has attracted far more attention, the United States takes every opportunity to pursue American interests with the 28 applicants that are now seeking WTO membership, and to give leadership to the process. Russia's WTO accession could play a crucial part in confirming and assuring Russia's transition to a market economy, governed by the rules of law and international trade. Discussions so far on Russia's accession, while still at an early stage, have been quite positive and we look for more progress. We are excited about the prospects of the accession of many of the former Soviet Republics, and the Baltic States. Others, like Saudi Arabia and Vietnam, are also becoming more active.

Within the Organization for Economic Cooperation and Development, we are in active negotiations over the Multilateral Agreement on Investment to ensure equitable and fair treatment for U.S. investors. In both this forum and the WTO, we are also actively engaged in negotiations on bribery and corruption, competition policy and transparency in government procurement.

In the context of the OECD, let me say briefly that the Administration continues to strongly support the OECD Shipbuilding Agreement, which is intended to eliminate unfair foreign shipbuilding subsidy practices and injurious pricing practices, thereby leveling the playing field for U.S. shipbuilders and allowing them to compete in the global market. Last year, the House of Representatives passed legislation that was inconsistent with the Agreement and did not provide a basis for U.S. ratification of the Agreement. Efforts to develop compromise legislation in the Senate were unsuccessful and the 104th Congress adjourned without passing implementing legislation.

The Administration has now developed new language, which is contained in a bill recently introduced by Senator Breaux, that addresses the concerns expressed by the last Congress while not requiring renegotiation of the OECD Agreement, which other Agreement Parties have indicated is unsatisfactory. **[CK]** These concerns deal with the possible impact of the Agreement on our Title XI loan guarantee program, the Jones Act, and U.S. military programs, as well as questions raised about monitoring and enforcement of the Agreement and the possible adverse impact of non-member countries. We expect that similar language will shortly be introduced in the House of Representatives. It is important that our Congress give prompt and favorable attention to this legislation. If not, we expect the Agreement's "standstill provision" will unravel, with new foreign subsidy practices appearing and a reversion to injurious pricing practices, leading to serious price depression in the global shipbuilding market. This would have disasterous consequences for the U.S. shipbuilding industry.

Regional Efforts

Latin America and the Caribbean were the fastest growing market for U.S. exports in 1996; our exports grew by more than 14 percent, reaching $109 billion. That growth rate is more than twice the rate of U.S. exports to the rest of the world. If trends continue, it will exceed the EU as a destination for U.S. exports by the middle of next year, and exceed Japan and the EU combined by the year 2010. It is also the second fastest growing region in the world, having transformed itself over the last decade in a manner unnoticed by some, but with profound positive implications for the United States. The Administration recognizes the enormous opportunity to build on this historic transformation. Mexico, for example, is already on the verge of replacing Japan as our second largest export market; in fact, in October of last year, Mexico did exceed Japan in purchases of U.S. exports.

With regards the regional agenda, the United States is committed not only to concluding the FTAA by 2005, but also to concrete progress by 2000. Two weeks from now, a hemispheric trade Ministerial meeting is to determine how and when these critical negotiations will be launched, and a second Summit of the Americas will take place in Chile in early 1998. We are at a key juncture in this process. The President will be visiting the region in the coming weeks. We are now turning to the negotiating phase of the FTAA and believe that the second Summit of the Americas set for March 1998 in Santiago is the venue to launch the hemispheric negotiations.

Chile is our first step in the FTAA process. The region views what we do with Chile as a litmus test for our plans for the region. Chile is symbolic of the opportunities in the region and the region's rising strategic significance to our longer term economic interests. U.S. exports to Chile area up 148 percent since 1990. Chile is a leading reformer in Latin America and its kind of reform is in the economic interests of the U.S. to ensure a growing export market well into the next century.

At the same time, and with building the FTAA very much in mind, the Administration remains committed to Caribbean Basin Trade Enhancement and will be working with the Congress on legislation to accomplish this objective. We believe it is important to provide the countries of this vital region with the right kinds of incentives to be full participants in the FTAA effort while at the same time provide the most effective tools possible to assist them in this effort.

The Asia Pacific region is enormous in its scope and has major implications for the future of the United States in many ways. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 27 percent annually, or almost $50 billion a year. More specifically, APEC is embarked on a program of early liberalization in key sectors. Sectoral initiatives, such as the ITA, will be critical to further anchor the United States in Asia through growing U.S. exports in key technologies. In addition, as a step towards the ultimate APEC goal, market-opening agreements with key economies (or key sectors) of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region. It would also provide the United States with a strong economic anchor in Asia, a key step in this region bursting with vitality and opportunity.

With Europe, our focus will be on non-tariff barriers which continue to impede transatlantic commerce, most particularly regulatory barriers and a variety of agricultural impediments. Approximately half of our $126 billion of merchandise exports to the EU require some form of EU certification in addition to U.S. requirements. Redundant testing and certification procedures increase the base cost of exports. Our business community strongly supports our current negotiations to complete Mutual Recognition Agreements (MRAs) to eliminate redundant testing between the United States and the EU. The areas under discussion include telecommunications, electronics, medical devices, pharmaceuticals and recreational craft. At the same time, we will be steadfast in our bilateral discussions and in the WTO to convince the EU to honor its commitments to U.S. agriculture. We recognize this is a major priority of the agricultural sector and it is a major priority of this Administration.

Africa is a region rich in resources and potential, which we should engage with determination to ensure its effective and sustainable development and democratic governance. We recently submitted a report to Congress on the Administration's trade and development policies for Sub-Saharan Africa, and we look forward to working with you this year to rejuvenate and expand our trade and investment policies toward African nations. There is an urgent need to integrate Sub-Saharan Africa into the international trading system. We believe the achievement of this goal lies in African countries reforming their own economies and in our encouraging this process.

Bilateral agreements

We recognize that certain problems can only be addressed effectively, and with a degree of specificity necessary, on a bilateral basis. Thus, we will continue to be engaged in bilateral market opening efforts with virtually every country in which we have a trading relationship: from Japan on telecommunications, photographic film, paper and other issues, to Canada on copyright protection, to Argentina on patents, to Korea on autos -- the list is lengthy and significant. There should be no misunderstanding. Now, as in the past, market access in many cases will only occur through intense bilateral efforts. This includes the intense scrutiny necessary under our enforcement capacity. Therefore we will continue to vigorously use our existing tools -- Sections 301, Special 301, and 1377 on telecommunications issues.

The Importance of Fast Track Authority

We can pursue portions of our agenda with our existing tools. But, to seize the opportunities in the global economy and to fully meet the competition, the President needs a new grant of trade agreement implementing authority, or fast track. Fast track is a key component of our trade arsenal. For that reason, the President has emphasized the importance of renewing trade agreement implementation authority and has instructed me to work with members of both Houses and both parties to forge a strong and workable grant of fast track authority.

Clearly, this should not be a matter of party or politics. Every President since President Ford has had fast track authority for key periods. For over 60 years, reacting to the lessons of the Smoot-Hawley tariff, America has led the effort to open foreign markets and increase U.S. and global prosperity. When the GATT was first formed in 1947, global tariffs averaged 40 percent among industrial nations. Today - after decades of bipartisan American leadership - global tariffs are closer to 5 percent and still declining with the Uruguay Round phase-in, and we have set the rules for bringing down many nontariff barriers. That persistent market opening has led to a period of increased global commerce unprecedented in world history. It has created enormous opportunities for our companies and workers, provided a seedbed for democracy abroad, and helped further greater stability in a still uncertain world. We should not turn our back on that pattern of leadership, which continues as recently as the completion of the ITA and the telecommunications pact.

There is no substitute for our ability to implement comprehensive trade agreements. The absence of agreed procedural authority to do so is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities in the new global economy. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts.

Fast Track and NAFTA in Context

Mr. Chairman, let me spend a moment discussing NAFTA because I think it is very important to put it in the right context and underscore an important distinction as we move forward.

There is no question that many important issues characterize our relationship with Mexico: trade, drugs, immigration, worker welfare and the environment, to name a few. Those issues existed before we negotiated NAFTA and they will exist in the future. Mexico is a developing country with which we share a huge border. It is inescapable that issues of this type will be part of our bilateral agenda for some time. NAFTA is not - and cannot be - the full, long-term solution to problems we may encounter, but by keeping Mexico on the path to prosperity through market reforms, it can be a part of the solution.

Mr. Chairman, the <u>fast track</u> debate is and should be about our ability to conduct a <u>global</u> trade policy - and to advance our <u>global</u> trade interests. Bills before the United States Senate cannot be passed with nothing more than 2 votes. Yet there are those who would roadblock our <u>global</u> trade policy based on America's commerce with a neighbor who is less than 2 percent of the world's population. I believe the United States is called to a larger purpose than that. Many of the issues in the Mexico debate relate to our shared and unique border. They do not address the need to seize the trillions of dollars in global infrastructure opportunities in Asia to be created in the next decade. They do not give us the tools to continue cutting European agricultural subsidies. They do not help us respond to preferential trading relationships, or exclusionary practices that limit the United States. We must focus on the <u>global</u> challenges of tomorrow.

Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for several more years while they move ahead. It would be a serious, self-inflicted wound. America is poised to seize great opportunities. Our competitors cannot beat us; we can only lose by removing ourselves.

Trade, Labor and Environment

Similarly, we can no longer allow our disagreements over the relationship between trade, labor standards and environmental protection to prevent us from granting the President fast track authority. We simply have to forge a consensus of this subject which eluded us in 1994 and 1995. I have been consulting broadly with members of Congress, business, labor and environmental groups, and will continue to do so. I do not intend to put forward a specific formulation today, but wanted to share several thoughts in this area.

It is important to recognize that a commitment to protection of core labor standards and their relationship to trade, is not new, nor is it unique to the United States. The international commitment to address this issue goes back as far as the Havana Charter, which was the effort to establish the International Trade Organization after World War II. We were gratified that at the WTO Ministerial in Singapore, the trading nations of the world acknowledged, for the first time in a Ministerial declaration, the importance of core labor standards to trade, although we fought for stronger steps. Advancing worker rights and labor standards is in our national interest and it is consistent with our deepest national values.

Making environmental and trade policy mutually supportive, although a somewhat newer public policy phenomenon on a global scale, similarly enjoys strong support in our country, and internationally. The 1992 Rio Sustainable Development Summit, the 1994 Summit of the Americas, and ongoing work in the WTO all reflect an international commitment to the importance of making these policy areas mutually supportive.

In my view, the challenge is how to maximize progress in three areas which are of major importance to us: expanded market access, advancing worker rights and core labor standards, and promoting environmental protection and sustainable development. We are committed to a strong strategy of pursuing our goals, and maintaining flexibility rather than pretending that one prescription would fit all countries or all cases. Based on my experience over these past four years, I think there is no substitute for building a consensus at home behind a strategy to advance our objectives on core labor standards and environmental protection. I am also certain that we will not convince other nations to improve their labor standards or environmental protection by denying the President the ability to negotiate trade agreements with them. We will, however, cripple our own export performance and lose jobs at home.

Conclusion

President Kennedy once described himself as "an idealist without illusions." I think that description captures well President Clinton's approach to trade. He, and those who work for him, genuinely believe that expanded trade can contribute to our prosperity, and to those around the world, particularly in the developing world where poverty is still widespread. But we have no illusions about the challenges ahead. Every trade barrier facing us is there for a reason: economic, political, bureaucratic, cultural. Some only want to export and not import. The competition around the world will continue to be intense. We have reasons to be confident, but only if we forge a domestic consensus that allows us to move ahead. We need to get down to business. The hard work of the past four years gives us only the opportunity to do the hard work of the next four.